



THE CITY OF SAN DIEGO **MANAGER'S REPORT**

DATE ISSUED: February 27, 2001

REPORT NO. 01-046

ATTENTION: Rules Committee
Agenda of March 7, 2001

SUBJECT: Status of TransNet

SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE COMMITTEE OR THE CITY COUNCIL.

BACKGROUND

The following report was prepared to give the Committee an overview of the current status of TransNet. Since 1989, Transnet has represented a large portion of the City's transportation budget. The current TransNet Program will expire in Fiscal Year 2008 and has allowed the flexibility of using future revenues for current year needs by issuing bonds. Without re-authorization of Transnet or a similar program, this flexibility is greatly reduced.

The Proposition A ballot measure that was passed by the voters on November 3, 1987, authorized a one-half cent increase in the local sales tax. The program was established for a period of 20 years, from Fiscal Year 1989 to Fiscal Year 2008, as a means to collect revenue to fund transportation improvements. Funds from TransNet are allocated in equal amounts among three categories: Transit, State Highways, and Local Streets and Roads. The City receives its share of TransNet revenues from the "Local Streets and Roads" category.

DISCUSSION

The revenue generated by TransNet for the City of San Diego is dependent on the one-half cent local sales tax county wide. From Fiscal Years 1989 through 2001 the City will have received approximately \$231.6 million which includes \$24.5 million expected to be collected this fiscal year. See Attachment A for the annual revenue history.

In order for the City to receive its full allocation of TransNet revenues, the City must meet a “Maintenance of Effort” (MOE) spending level. This provision of Proposition A stipulates that the City will lose a dollar of TransNet for each dollar that City transportation expenditures fall short of historical, pre-TransNet spending levels. In June 1988, the San Diego County regional Transportation Commission established an annual MOE spending level of \$15,814,481 for the City.

The MOE provision ensures that TransNet revenues are used to augment the funds available for transportation projects and not to have them replace General Fund revenues that were already being spent for street and road projects. The Financial Management Department monitors the City’s General Fund expenditures for street and road projects to ensure that the City always meets the MOE spending level.

As with any new program, when Transnet began, the needs exceeded the amount of projected revenue that was available on a yearly basis. Additionally, during the campaign for the Proposition a list of large projects was created and included in the language supporting the proposition. The projects on this list, as well as other priority projects, would have been impossible to accomplish near-term with the projected annual revenue. Therefore in Fiscal Year 1991, the City requested and received funding from SANDAG in the form of TransNet Bond proceeds. The receipts of such Bond funds has allowed the City to construct projects early in the TransNet program instead of having to wait until sufficient revenues accrue. Council has recognized this benefit to the City and approved Bonds for numerous projects. A portion of TransNet funds were then budgeted in subsequent fiscal years to repay the principle and interest for these bonds. Attachment B shows how much the City bonded in each year of the program. In 1999, the City altered this strategy somewhat as it became cheaper to utilize commercial paper to accomplish this same purpose. Although the use of commercial paper for budgeting purposes has been approved in recent years, we have been able to avoid issuing commercial paper thus far. This has been accomplished by implementing an aggressive cash management effort by the Engineering and Capital Projects Department, Financial Management Department and City Auditor.

The debt service requirement for prior year bonds and future commercial paper for Fiscal Years 2002 through 2008 is \$78,250,675 . Of this amount, \$49,932,137 is for repayment of principle and \$28,318,538 is for interest. It is these interest payments that are the “consequence” of the earlier bonding of projects.

TransNet Through 2008

TransNet has traditionally been utilized in four broad categories: Department Operational Activities, Capital Improvement Projects, Annual Needs, and Debt Payment Obligations.

Operational Activities are transportation related activities for which the City has responsibility. The activities include Streets Division maintenance, Traffic Operations, and the design and management of CIP projects. Attachment C is a summary of these activities.

The Capital Improvement Program contains specific projects that are in the City's eleven year program. The projects include road widenings and enhancements, drainage improvements, bridges, traffic signals, street lights, etc. Please refer to Volume 4 of the City budget for the entire program.

The CIP also contains Annual Needs, which address the following (see Attachment D for further details):

1.	Traffic signals:	\$2,970,000
2.	Traffic Safety:	\$ 730,000
3.	Street Light Concerns:	\$ 300,000
4.	Other Traffic Issues:	\$ 510,000
5.	Street Resurfacing:	\$1,000,000
6.	Other Street Improvements:	\$ 650,000
7.	Drainage Improvements:	\$ 800,000
8.	Coastal Erosion:	\$ 300,000
9.	Utility Undergrounding:	\$ 625,000
10.	New Development:	\$ 75,000

The issue before the Committee and the City Council is to establish a funding priority for the remaining term of Transnet, as well as strategically discussing the reauthorization of Transnet. Should the Council maintain Annual Needs, Operational Activities and specific CIP projects at their current levels, we estimate approximately \$1,000,000 will be available annually for Council allocation. This takes into account that future year TransNet revenues will be reduced by debt service requirements for prior year bonds and commercial paper. The Council could, at its sole discretion, reduce any of the Annual Needs, Operational Activities or specific CIP projects, but should be aware of the possible consequences.

Transnet Re-authorization

As mentioned earlier in the report, Transnet was approved by the voters in 1987 for a 20 year period and expires in 2008. As agencies throughout San Diego County rely on Transnet as a primary fund source for its transportation needs, discussions have begun on the need for the voters to "reauthorize" Transnet at some time prior to 2008. As the regional agency that has traditionally disburses Transnet funds, SANDAG has taken a leadership role in these discussions.

Discussions have included such topics as the timing of the vote, should the current equal split between local agencies, transit agencies, and Caltrans remain, and should newer or more specific purposes (i.e. open space acquisition, bikeway facilities) be considered.

Respectfully submitted,

Frank Belock, Jr.
Engineering and Capital Projects Director

Approved: George I. Loveland
Senior Deputy City Manager

BELOCK/CM

Attachments: Attachment "A" - TransNet Revenue
 Attachment "B" - TransNet Bond Funded Projects
 Attachment "C" - Operational Activities
 Attachment "D" - Annual Funding Amounts